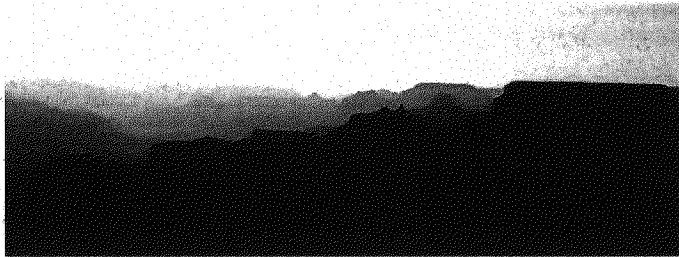


# **TOWN OF TUSAYAN, ARIZONA**



## **FINANCIAL STATEMENTS**

**FISCAL YEAR ENDED JUNE 30, 2013**

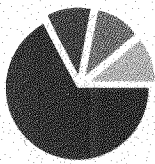
**WITH REPORT OF**

**CERTIFIED PUBLIC ACCOUNTANTS**

# TOWN OF TUSAYAN

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**MEMBERS:**

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## **Independent Auditors' Report**

The Honorable Mayor and  
Town Council  
Tusayan, Arizona

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Tusayan, Arizona, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of governmental activities, each major fund, and the aggregate remaining fund information of the Town of Tusayan as of June 30, 2013, and the respective changes in financial position and the budgetary comparison for the General fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

As described in Note 1 to the financial statements, in 2013, the Town adopted new accounting guidance, GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

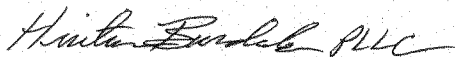
### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 2, 2013, on our consideration of the Town of Tusayan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Tusayan's internal control over financial reporting and compliance.



HintonBurdick, PLLC  
Flagstaff, Arizona  
December 2, 2013

**TOWN OF TUSAYAN, ARIZONA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the Year Ended June 30, 2013**

As management of the Town of Tusayan (Town), we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2013. Please read it in conjunction with the accompanying basic financial statements.

**FINANCIAL HIGHLIGHTS**

- Total assets exceeded total liabilities (net position) by \$5,080,472 at the end of the fiscal year.
- Total revenues from all sources were \$2,999,097 and the total cost of all Town programs was \$1,017,416 resulting in an increase of net position of \$1,981,681.
- Sales tax collections were \$2,780,142.
- Total costs incurred for the Town Employee Housing project were \$220,046 during the fiscal year.
- Total costs incurred by the Town for the completion of Phase I of the Community Park project during the fiscal year was \$293,127 for a project total of \$311,650.
- At the end of the fiscal year, unassigned fund balance for the General Fund was \$3,897,317.
- At the end of the fiscal year, restricted fund balance for the HURF Fund was \$82,430.

**USING THIS ANNUAL REPORT**

This annual report consists of a series of financial statements. The three components of the financial statements are: (1) Government-wide financial statements which include the Statement of Net Position and the Statement of Activities. These statements provide information about the activities of the Town as a whole. (2) Fund financial statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the Town's operations in more detail than the government-wide statements by providing information about the Town's most significant funds. (3) Notes to the financial statements.

**Reporting the Town as a Whole**

**The Statement of Net Position and the Statement of Activities (Government-wide)**

A frequently asked question regarding the Town's financial health is whether the year's activities contributed positively to the overall financial well-being. The Statement of Net Position and the Statement of Activities report information about the Town as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Town's net position and its changes. Net position, the difference between assets and liabilities, are one way to measure the Town's financial health, or financial position. Over time, an increase or decrease in net position is an indicator of whether the financial health is improving or deteriorating. However, it is important to consider other non-financial factors such as changes in the condition of the Town's roads to accurately assess the overall health of the Town.

The Statement of Net Position and the Statement of Activities, present information about the following:

- Government activities – All of the Town's basic services are considered to be governmental activities, including general government, public safety, public works/streets, culture and recreation, economic development, health and welfare and interest on long-term debt. Sales taxes, State Revenue Sharing, intergovernmental revenues and charges for services finance most of these activities.
- Proprietary activities/Business type activities – The Town currently does not maintain any proprietary activities; all activities are accounted for as governmental activities.

### **Reporting the Town's Most Significant Funds**

#### **Fund Financial Statements**

The fund financial statements provide detailed information about the most significant funds—not the Town as a whole. Some funds are required to be established by State law and by bond covenants. However, management may establish many other funds which aid in the management of money for particular purposes or meet legal responsibilities associated with the usage of certain taxes, grants, and other money. The Town's two major funds use the accounting approach as explained below.

- Governmental funds – All of the Town's basic services are reported in governmental funds. Governmental funds focus on how resources flow in and out with the balances remaining at year-end that are available for spending. These funds are reported using an accounting method called the modified accrual accounting method, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Town's general government operations and the basic services it provides. Government fund information shows whether there are more or fewer financial resources that can be spent in the near future to finance the Town's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in a reconciliation included with the Basic Financial Statements and in footnote 2.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of the Town's financial position. The Town's combined assets exceed liabilities by \$5.1 million as of June 30, 2013 as shown in the following condensed statement of net position.

### TOWN OF TUSAYAN, ARIZONA Statement of Net Position

	Governmental activities	
	6/30/2013	6/30/2012
Current and other assets	\$ 4,109,779	\$ 2,671,896
Capital assets	1,080,250	555,236
Total assets	5,190,029	3,227,132
Long-term liabilities outstanding	-	-
Other liabilities	109,557	128,341
Total liabilities	109,557	128,341
Net position:		
Net investment in capital		
assets	1,080,250	555,236
Restricted	82,430	39,034
Unrestricted	3,917,792	2,504,521
Total net position	\$ 5,080,472	\$ 3,098,791

#### Governmental Activities

The cost of all Governmental activities this year was \$1,017,416 as shown on the Changes in Net Position statement on the following page. \$10,135 of this cost was paid for by those who directly benefited from the programs. \$50,778 was subsidized by grants received from other governmental organizations for both capital and operating activities. Overall governmental program revenues, including intergovernmental aid and fees for services were \$60,913. General taxes, State Revenue Sharing and investment earnings totaled \$2.93 million.

The Town's programs include: General Government, Public Safety, Public Works/Streets, Culture & Recreation, and Economic Development. Each program's net cost (total cost less revenues generated by the activities) are presented on the following page. The net cost shows the extent to which the Town's general revenues or taxes support each of the Town's programs.

**TOWN OF TUSAYAN, ARIZONA**  
**Changes in Net Position**

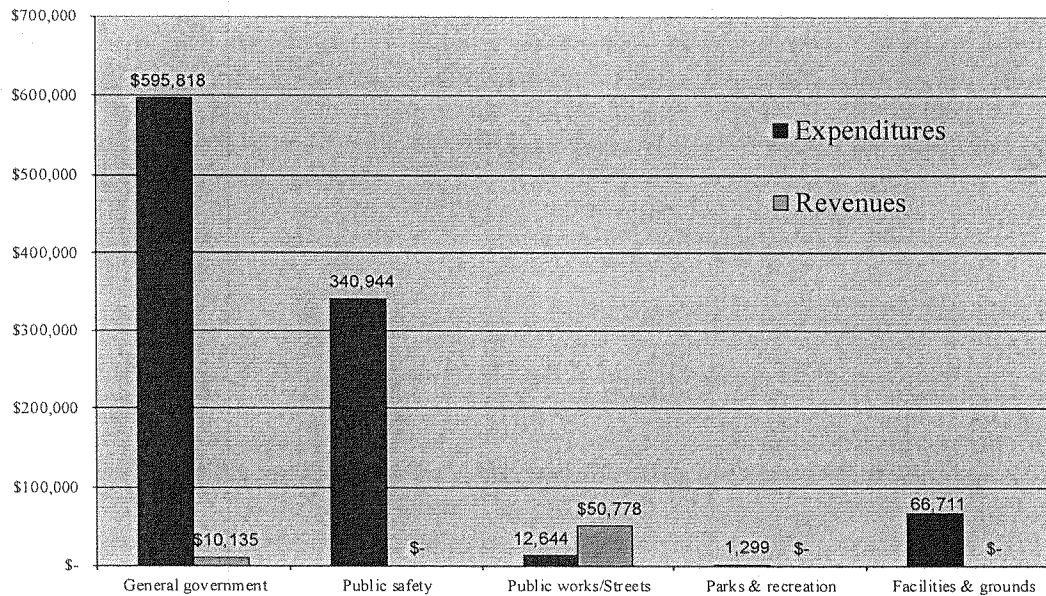
	Governmental activities	
	6/30/2013	6/30/2012
Revenues:		
Program revenues:		
Charges for services	\$ 10,135	\$ 12,772
Operating grants and contributions	50,778	47,133
Capital grants and contributions	-	-
General revenues:		
Taxes	2,780,142	2,385,192
Urban revenue sharing	153,222	126,601
Investment earnings	4,600	2,803
Other revenue/(expense)	220	116
Total revenues	<u>2,999,097</u>	<u>2,574,617</u>
Expenses:		
General government	595,818	696,302
Public safety	340,944	342,544
Public works/Streets	12,644	4,823
Parks and recreation	1,299	-
Facilities and grounds	66,711	41,769
Interest on long-term debt	-	-
Total expenses	<u>1,017,416</u>	<u>1,085,438</u>
Increase (Decrease) in net assets before transfers	1,981,681	1,489,179
Transfers	-	-
Net position, beginning	3,098,791	1,609,612
Net position, ending	<u>\$ 5,080,472</u>	<u>\$ 3,098,791</u>

Total resources available during the year to finance governmental operations were \$6.09 million consisting of net position at July 1, 2012 of \$3.1 million, program revenues of \$60,913 and General Revenues of \$2.93 million. Total Governmental Activities during the year were \$1,017,416; thus Governmental Net Position increased by \$2.0 million to a total of \$5,080,472.

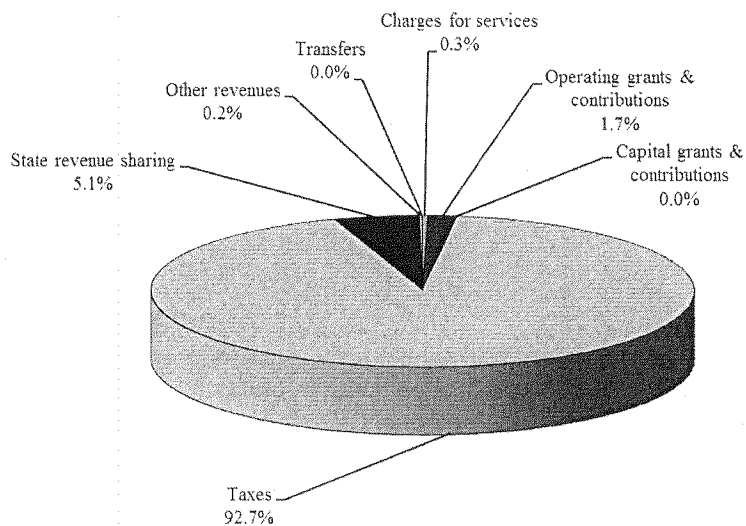


The following graphs compare program expenses to program revenues and provide a breakdown of revenues by source for all governmental activities:

**Expenses and Program Revenues - Governmental Activities**  
(in Thousands)



**Revenue By Source - Governmental Activities**



## **Financial Analysis of the Government's Funds**

As noted earlier, the Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds:** The focus of the Town's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Town's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$4,000,222, an increase of \$1,456,667 in comparison with the prior year. Approximately 98% or \$3,917,317 constitutes unassigned fund balance which is available for spending at the government's discretion. The remainder of the fund balance, or \$82,430, is restricted to indicate that it is not available for new spending because it has already been committed to pay for highways and streets.

The General Fund is the chief operating fund of the Town. At the end of the current fiscal year, unassigned fund balance in the General fund was \$3,897,317. As a measure of liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. The unassigned fund balance at year end represents 255% of the total General Fund fiscal year 2013 expenditures. During the year, the General Fund balance increased by \$1,392,796. The Town budgeted to increase the fund balance by \$29,160. The excess revenues over expenditures (fund balance) are anticipated to be expended in future years.

The Highway User Revenue Fund has a total fund balance of \$102,905, of which \$82,430 is restricted for road construction and maintenance. The fund balance increased during the current year by \$63,871. There were expenditures totaling \$7,383 for sidewalk and street maintenance in the current year.

### **Budgetary Highlights**

General Fund revenues of \$2,927,843 were \$349,683 greater than budgeted revenues of \$2,578,160. Greater than anticipated revenue from taxes was the major factor contributing to this variance. General Fund expenditures were \$1,013,953 less than budgeted. The Town had many planned expenditures that were not made during the year.

## **CAPITAL ASSET AND DEBT ADMINISTRATION**

### **Capital Assets**

The capital assets of the Town are those assets that are used in performance of Town functions including infrastructure assets. Capital assets include land, buildings, improvements other than buildings, equipment, vehicles, park facilities and roads. At the end of fiscal year 2013, net capital assets of the government activities totaled \$1,080,250. The Town completed two Town Employee Housing units construction during fiscal year 2013 at a total cost of \$220,046. In addition, the Town contributed \$293,127 toward Phase I of the Community Park, which was completed during fiscal year 2013. Depreciation on capital assets for government activities is recognized in the Government-Wide financial statements. (See note 5 to the financial statements.)

## **Debt**

At year-end, the Town did not have any long-term debt.

## **NEXT YEAR'S BUDGET AND ECONOMIC FACTORS**

In considering the Town Budget for fiscal year 2013/2014, the Town Council and management were cautious as to the growth of revenues and expenditures due to a slow economy. Overall governmental fund operating expenditures were budgeted to increase slightly due to increased levels of service and \$1 million is budgeted for anticipated activity associated with the water enterprise fund.

## **CONTACTING THE TOWN'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the Town's finances and to show the Town's accountability for the money it receives. If you have questions about this report or need additional financial information, contact: Town of Tusayan, Finance Department, P.O. Box 709, Tusayan, Arizona 86023.

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## **BASIC FINANCIAL STATEMENTS**

**TOWN OF TUSAYAN, ARIZONA**  
**Statement of Net Position**  
**June 30, 2013**

	<u>Governmental Activities</u>
<b>Assets</b>	
Cash and cash equivalents	\$ 3,812,464
Receivables (net of allowance)	297,315
Capital assets (net of accumulated depreciation):	
Construction in progress	24,680
Buildings	651,081
Improvements other than buildings	379,186
Furniture, equipment & vehicles	25,303
Total assets	<u>5,190,029</u>
<b>Liabilities</b>	
Accounts payable and other current liabilities	109,557
Noncurrent liabilities:	
Due within one year	-
Due in more than one year	-
Total liabilities	<u>109,557</u>
<b>Net Position</b>	
Net investment in capital assets	1,080,250
Restricted for:	
Highways & streets	82,430
Unrestricted	3,917,792
Total net position	<u>\$ 5,080,472</u>

The accompanying notes are an integral part of the financial statements.

**TOWN OF TUSAYAN ARIZONA**  
**Statement of Activities**  
**For the Year Ended June 30, 2013**

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position	
	Expenses	Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	Governmental Activities	Total
Governmental activities:						
General government	\$ 595,818	\$ 10,135	\$ -	\$ -	\$ (585,683)	\$ (585,683)
Public safety	340,944	-	-	-	(340,944)	(340,944)
Public works/Streets	12,644	-	50,778	-	38,134	38,134
Parks & recreation	1,299	-	-	-	(1,299)	(1,299)
Facilities & grounds	66,711	-	-	-	(66,711)	(66,711)
Interest on long-term debt	-	-	-	-	-	-
Total governmental activities	1,017,416	10,135	50,778	-	(956,503)	(956,503)
Total primary government	\$ 1,017,416	\$ 10,135	\$ 50,778	\$ -	(956,503)	(956,503)
General Revenues:						
Taxes:						
City sales tax					2,713,993	2,713,993
State sales tax					45,673	45,673
Auto lieu tax					20,476	20,476
Urban revenue sharing					153,222	153,222
Unrestricted investment earnings					4,600	4,600
Miscellaneous					220	220
Total general revenues & transfers					2,938,184	2,938,184
Change in net position					1,981,681	1,981,681
Net position - beginning					3,098,791	3,098,791
Net position - ending					\$ 5,080,472	\$ 5,080,472

**TOWN OF TUSAYAN ARIZONA**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2013**

	General Fund	Highway Users Revenue Fund	Total Governmental Funds
<b>Assets</b>			
Cash and cash equivalents	\$ 3,715,359	\$ 97,105	\$ 3,812,464
Receivables, net:			
Intergovernmental	291,290	5,800	297,090
Due from other funds	225	-	225
Total Assets	<u>\$ 4,006,874</u>	<u>\$ 102,905</u>	<u>\$ 4,109,779</u>
<b>Liabilities</b>			
Accounts Payable	\$ 100,324	\$ -	\$ 100,324
Accrued wages and benefits	9,233	-	9,233
Total Liabilities	<u>109,557</u>	<u>-</u>	<u>\$ 109,557</u>
<b>Fund Balances</b>			
Restricted for:			
Public works/streets	-	82,430	82,430
Unassigned	3,897,317	20,475	3,917,792
Total fund balances	<u>3,897,317</u>	<u>102,905</u>	<u>4,000,222</u>
Total Liabilities and fund balances	<u>\$ 4,006,874</u>	<u>\$ 102,905</u>	<u>\$ 4,109,779</u>

The accompanying notes are an integral part of the financial statements.



**TOWN OF TUSAYAN ARIZONA**  
**Reconciliation of the Balance Sheet of Governmental Funds**  
**to the Statement of Net Position**  
**June 30, 2013**

---

Total fund balances - governmental funds	\$ 4,000,222
--	--------------

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

Governmental capital assets	\$ 1,110,325	
Accumulated depreciation	<u>(30,075)</u>	
		1,080,250

Total net position - governmental activities	<u><u>\$ 5,080,472</u></u>
--	----------------------------

The accompanying notes are an integral part of the financial statements.

**TOWN OF TUSAYAN ARIZONA**  
**Statement of Revenues, Expenditures, and Changes in**  
**Fund Balances - Governmental Funds**  
**For the Year Ended June 30, 2013**

	General Fund	Highway Users Revenue Fund	Total Governmental Funds
<b>REVENUES</b>			
Sales taxes	\$2,713,993	\$ -	\$ 2,713,993
Licenses and permits	10,135	-	10,135
Intergovernmental	198,895	71,254	270,149
Interest revenue	4,600	-	4,600
Other revenues	220	-	220
Total revenues	<u>2,927,843</u>	<u>71,254</u>	<u>2,999,097</u>
<b>EXPENDITURES</b>			
Current:			
General government	605,386	-	605,386
Public safety	340,944	-	340,944
Public works/streets	-	7,383	7,383
Parks & recreation	293,127	-	293,127
Facilities & grounds	295,590	-	295,590
Capital outlay	-	-	-
Total expenditures	<u>1,535,047</u>	<u>7,383</u>	<u>1,542,430</u>
Excess of Revenues			
Over (Under) Expenditures	1,392,796	63,871	1,456,667
Fund balances, beginning of year	<u>2,504,521</u>	<u>39,034</u>	<u>2,543,555</u>
Fund balances, end of year	<u>\$ 3,897,317</u>	<u>\$ 102,905</u>	<u>\$ 4,000,222</u>

The accompanying notes are an integral part of the financial statements.

**TOWN OF TUSAYAN ARIZONA**  
**Reconciliation of the Statement of Revenues, Expenditures**  
**and Changes in Fund Balances of Governmental Funds**  
**To the Statement of Activities**  
**For the Year Ended June 30, 2013**

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Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds	\$ 1,456,667
--	--------------

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital outlay	\$ 546,686	
Depreciation expense	<u>(21,672)</u>	
		525,014

Change in net position of governmental activities	<u><u>\$ 1,981,681</u></u>
---	----------------------------

The accompanying notes are an integral part of the financial statements.

**TOWN OF TUSAYAN ARIZONA**  
**Statement of Revenues, Expenditures and Changes in Fund Balance**  
**General Fund**  
**Budget & Actual**  
**For the Year Ended June 30, 2013**

REVENUES	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Taxes	\$ 2,300,000	\$ 2,300,000	\$ 2,713,993	\$ 413,993
Licenses, permits and fees	75,500	75,500	10,135	(65,365)
Intergovernmental revenue	199,660	199,660	198,895	(765)
Interest	3,000	3,000	4,600	1,600
Other revenues	-	-	220	220
Total revenues	2,578,160	2,578,160	2,927,843	349,683
<b>EXPENDITURES</b>				
Current:				
General government	1,433,000	1,433,000	605,386	827,614
Public safety	385,000	385,000	340,944	44,056
Parks & recreation	330,000	330,000	293,127	36,873
Facilities & grounds	401,000	401,000	295,590	105,410
Total expenditures	2,549,000	2,549,000	1,535,047	1,013,953
Excess of Revenues				
Over (Under) Expenditures	29,160	29,160	1,392,796	1,363,636
Fund balance, beginning of year	2,504,521	2,504,521	2,504,521	-
Fund balance, end of year	\$ 2,533,681	\$ 2,533,681	\$ 3,897,317	\$ 1,363,636

The accompanying notes are an integral part of the financial statements.

**TOWN OF TUSAYAN ARIZONA**  
**Statement of Fiduciary Net Position**  
**Agency Fund**  
**June 30, 2013**

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	STILO Agency Fund
<b>ASSETS</b>	
Cash and cash equivalents	\$ -
Accounts receivable	450
	<hr/>
Total assets	450
	<hr/>
<b>LIABILITIES</b>	
Accounts payable	\$ 225
Due to other funds	225
	<hr/>
Total liabilities	450
	<hr/>
<b>NET POSITION</b>	
Net Position (Deficit) Held in Trust	<u><u>\$ -</u></u>

The accompanying notes are an integral part of the financial statements.

**TOWN OF TUSAYAN, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2013**

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**Note 1.            Summary of Significant Accounting Policies**

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**Description of government-wide financial statements**

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. All fiduciary activities are reported only in the fund financial statements. *Governmental activities*, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges to external customers for support. Likewise, when applicable, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

**Reporting entity**

The Town of Tusayan (Town) was incorporated in April 2010, under the provisions of Article 13, Sections 1 through 6, of the Constitution of Arizona and Title 9 of the Arizona Revised Statutes. The Town is a municipal corporation governed by an elected five member council (council). The council members appoint the mayor and vice-mayor. The accompanying financial statements present the Town and its component units, entities for which the Town is considered to be financially accountable. Blended component units are, in substance, part of the primary government's operations, even though they are legally separate entities. Thus, blended component units are appropriately presented as funds of the primary government. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the Town. Currently, there are no blended or discretely presented component units reported with the Town.

**Basis of presentation – government-wide financial statements**

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds. Separate financial statements are provided for governmental funds and fiduciary funds even though the latter are excluded from the government-wide financial statements.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

**Basis of presentation – fund financial statements**

The fund financial statements provide information about the Town's funds, including its fiduciary funds. Separate statements for each fund category—governmental and fiduciary—are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

**TOWN OF TUSAYAN, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2013**

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**Note 1.           Summary of Significant Accounting Policies, Continued**

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The Town reports the following major governmental funds:

The **General Fund** is the Town's primary operating fund. It accounts for all financial resources of the general government, except those accounted for in another fund.

The **Highway User Revenue Special Revenue Fund** is used to account for the Town's share of motor fuel tax revenues which are restricted for the maintaining, repairing, and upgrading of streets.

Additionally, the Town reports the following fund types:

The **Agency Fund** accounts for assets held by the Town as an agent for a developer, the STILO Group. The developer is paying for planning services and all application costs based upon an agreement between the developer and the Town. These funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

During the course of operations the Town has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental and agency funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column.

**Measurement focus and basis of accounting**

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**TOWN OF TUSAYAN, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2013**

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**Note 1.      Summary of Significant Accounting Policies, Continued**

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The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Town considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Sales taxes, other taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). All other revenue items are considered to be measurable and available only when cash is received by the Town.

**Assets, liabilities, deferred outflows/inflows of resources, and net position/fund balance**

***Deposits and investments***

The Town's cash and cash equivalents are considered to be cash on hand, demand deposits, deposits in cash management pools that have the general characteristics of demand deposits accounts and short-term investments with original maturities of three months or less from the date of acquisition. The Town's policy for investments is provided in Note 4. All investments are carried at fair value with unrealized gains and losses recorded as adjustments to interest earnings. Fair market values are based on quoted market prices.

***Receivables and payables***

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to" or "due from other funds. Due to the nature of the accounts receivable in governmental type activities, management does not consider an allowance for uncollectible accounts receivable necessary or material. Therefore, no allowance for uncollectible accounts receivable is presented.

***Prepaid items***

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.



**TOWN OF TUSAYAN, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2013**

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**Note 1.        Summary of Significant Accounting Policies, Continued**

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***Inventories***

The cost of governmental fund-type inventories are recorded as expenditures when purchased rather than when consumed.

***Capital assets***

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. roads, bridges, sidewalks, and similar items), are reported in the applicable governmental activity column in the government-wide financial statements. Capital assets are defined by the Town as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of three years.

As the Town constructs or acquires additional capital assets each period, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or increase its estimated useful life. Donated capital assets are recorded at their estimated fair value at the date of donation.

Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Land and construction in progress are not depreciated. The other property, plant, equipment, and infrastructure of the primary government are depreciated using the straight line method over the following estimated useful lives:

Buildings and improvements	25 to 50 years
Machinery, vehicles and equipment	5 to 10 years
Storm drains and inlets	20 years
Infrastructure - Streets and sidewalks	20 years

***Unearned revenue***

Unearned revenues arise when potential revenue is received by the Town from various granting agencies before it has a legal claim to them or when grant monies are received prior to the incurrence of qualifying expenditures, i.e., contract and grant receipts received in excess of expenditures incurred are recognized as unearned revenue. In subsequent periods, when the revenue recognition criteria is met, or when the Town has a legal claim to the resources, the liability or unearned revenue is removed from the balance sheet and the revenue is recognized.

**TOWN OF TUSAYAN, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2013**

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**Note 1.           Summary of Significant Accounting Policies, Continued**

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***Deferred outflows/inflows of resources***

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/ expenditure) until then. The Town has no items that qualify for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The Town has no items that qualify for reporting in this category.

***Net position flow assumption***

Sometimes the Town will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Town's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

***Fund balance flow assumptions***

Sometimes the Town will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the Town's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

***Fund balance policies***

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The Town itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

**TOWN OF TUSAYAN, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2013**

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**Note 1.           Summary of Significant Accounting Policies, Continued**

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The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the Town's highest level of decision-making authority. The governing council is the highest level of decision-making authority for the Town that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the Town for specific purposes but do not meet the criteria to be classified as committed. The Town Manager is authorized to assign amount to a specific purpose in accordance with the Town's budget policy. The council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

**Revenues and expenditures/expenses**

***Program revenues***

Amounts reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

***Taxes***

The Town does not currently have any primary or secondary real property tax levies.

Normally, property tax revenues are recognized as revenues in the year collected or if collected within 60 days thereafter unless they are prepaid.

***Compensated absences***

For governmental funds, amounts of vested or accumulated vacation and sick leave that are not expected to be liquidated with expendable available financial resources are reported as liabilities in the government-wide statement of net position and as expenses in the government-wide statement of activities. No expenditures are reported for these amounts in the fund financial statements. Currently, the Town has no full time employees and no liabilities for compensated absences.

**TOWN OF TUSAYAN, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2013**

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**Note 1.           Summary of Significant Accounting Policies, Continued**

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**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

**New Pronouncements**

In April 2012, the GASB issued statement No. 65, *Items Previously Reported as Assets and Liabilities*. Beginning with fiscal year 2013, the Town implemented the provisions of this statement, which establishes accounting standards and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities, and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

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**Note 2.           Reconciliation of Government-Wide and Fund Financial Statements**

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The governmental fund balance sheet includes a reconciliation between total governmental fund balances and net position of governmental activities as reported in the government-wide statement of net position. This difference primarily results from the long-term economic focus of the statement of net position versus the current financial resources focus of the governmental fund balance sheets. The details of this difference are reported in the reconciliation on page 15.

The governmental fund statement of revenues, expenditures, and changes in fund balance includes a reconciliation between net changes in fund balances-total governmental funds and changes in net position of governmental activities as reported in the government-wide statement of activities. These differences are the result of converting from the current resources measurement focus and modified accrual basis for governmental fund statements to the economic resources measurement focus and full accrual basis used for government-wide statements. The details of these differences are reported in the reconciliation on page 17.

**TOWN OF TUSAYAN, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2013**

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**Note 3.           Stewardship, Compliance, and Accountability**

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Stewardship, compliance, and accountability are key concepts in defining the responsibilities of the Town. The use of budgets and monitoring of equity status facilitate the Town's compliance with legal requirements.

**Budgets and Budgetary Accounting**

The Town Council follows these procedures in establishing the budgetary data reflected in the financial statements:

1. In accordance with Arizona Revised Statutes, the Town Manager submits a proposed budget for the fiscal year commencing the following July 1 to the Town Council. The operating budget includes proposed expenditures and the means of financing them for the upcoming year.
2. Public hearings are conducted to obtain taxpayer comment.
3. Prior to the third Monday in August, the expenditure limitation for the Town is legally enacted through passage of an ordinance. To ensure compliance with the expenditure limitation, a uniform expenditure report must be filed with the State each year. This report, issued under a separate cover, reconciles total Town expenditures from the audited financial statements to total expenditures for reporting in accordance with the State's uniform expenditure reporting system (A.R.S. §41-1279.07).
4. The Town follows a voter-approved alternative expenditure limitation that was adopted on July 14, 2010.
5. Expenditures may not legally exceed the expenditure limitation of all fund types as a whole. For management purposes, the Town adopts a budget by department for the General Fund and in total by fund for other funds. The Town Manager, subject to Town Council approval, may at any time transfer any unencumbered appropriation balance or portion thereof between a department or activity. The adopted budget cannot be amended in any way without Town Council approval.
6. Formal budgetary integration is employed as a management control device during the year for the General and Special Revenue Funds on essentially the same modified accrual basis of accounting used to record actual revenues and expenditures.

The Town is subject to the State of Arizona's Spending Limitation Law for Towns and Cities. This law does not permit the Town to spend more than budgeted revenues plus the carry-over unrestricted cash balance from the prior fiscal year. The limitation is applied to the total of the combined funds. The Town complied with this law during the year.

**TOWN OF TUSAYAN, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2013**

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**Note 3.            Stewardship, Compliance, and Accountability, Continued**

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**Expenditures over Appropriations**

Expenditures may not legally exceed budgeted appropriations at the department level. The individual Statements of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual reports as listed in the table of contents present all of the departments which incurred an excess of expenditures/expenses over appropriations for the year ended June 30, 2013.

**Encumbrances**

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the Town.

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**Note 4.            Deposits and Investments**

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A reconciliation of cash and investments as shown on the statement of net position follows:

Cash and cash equivalents	\$        3,812,464
Investments	-
Restricted cash and cash equivalents	-
	<u><u>\$        3,812,464</u></u>

**Deposits**

*Custodial Credit Risk*

For deposits this is the risk that in the event of a bank failure, the government's deposit may not be returned to it. The Town does not have a formal policy for custodial credit risk. At June 30, 2013, cash on hand was \$0, and the carrying amount of the Town's deposits was \$3,812,464. As of June 30, 2013, the Town's bank balance of \$3,826,691 was fully insured or collateralized.

**Investments**

The Arizona State Treasurer's Office operates the Local Government Investment Pool (LGIP). The LGIP is available for investment of funds administered by any Arizona Public Treasurer.

The LGIP is not registered with the SEC as an investment company. Deposits in the LGIP are not insured or otherwise guaranteed by the State of Arizona, and participants share proportionally in any realized gain or losses on investments.

**TOWN OF TUSAYAN, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2013**

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**Note 4.           Deposits and Investments, Continued**

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The provisions of State law (A.R.S. 35-323) govern the investment of funds in excess of \$100,000. A.R.S. 35-323 allows for investments in certificates of deposit, interest bearing savings accounts, repurchase agreements with a maximum maturity of 180 days, pooled investment funds established by the State Treasurer, obligations guaranteed by the United States, bonds of the State of Arizona or other local municipalities, commercial paper of prime quality that is rated "P-1" by Moody's investors or "A-1" by Standard and Poor's rating service, and bonds, debentures or notes that are issued by corporations organized and doing business in the United States subject to certain restrictions. For investments of less than \$100,000, procedures as specified by local ordinance or resolution must be followed.

As of June 30, 2013 the Town did not hold any funds in the LGIP or any other investments.

**Interest rate risk**

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Town's policy for managing its exposure to fair value loss arising from increasing interest rates is to comply with the provisions of State law (A.R.S. 35- 323) which requires that the Town's investment portfolio maturities do not exceed five years from the time of purchase.

**Credit risk**

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Town's policy for reducing its exposure to credit risk is to comply with State law (A.R.S. 35-323) which limits investment in commercial paper and corporate bonds to the top ratings issued by nationally recognized statistical rating organizations such as Standard & Poor's and Moody's Investor Services.

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**TOWN OF TUSAYAN, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2013**

**Note 5. Capital Assets**

<b>Governmental Activities:</b>	<b>Balance 6/30/2012</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance 6/30/2013</b>
Capital assets, not being depreciated:				
Land	\$ -	\$ -	\$ -	\$ -
Construction in progress	18,522	317,808	(311,650)	24,680
Total capital assets, not being depreciated	18,522	317,808	(311,650)	24,680
Capital assets, being depreciated:				
Buildings	445,997	220,046	-	666,043
Improvements other than buildings	78,919	311,650	-	390,569
Furniture, equipment & vehicles	20,201	8,832	-	29,033
Infrastructure	-	-	-	-
Total capital assets, being depreciated	545,117	540,528	-	1,085,645
Less accumulated depreciation for:				
Buildings	(2,859)	(12,103)	-	(14,962)
Improvements other than buildings	(4,823)	(6,560)	-	(11,383)
Furniture, equipment & vehicles	(721)	(3,009)	-	(3,730)
Infrastructure	-	-	-	-
Total accumulated depreciation	(8,403)	(21,672)	-	(30,075)
Total capital assets, being depreciated, net	536,714	518,856	-	1,055,570
Governmental activities capital assets, net	<u>\$ 555,236</u>	<u>\$ 836,664</u>	<u>\$ (311,650)</u>	<u>\$ 1,080,250</u>

Depreciation expense was charged to the functions/programs of the Town as follows:

<b>Governmental Activities:</b>	
General government	\$ 15,112
Public safety	-
Public works/streets	5,261
Parks & recreation	1,299
Facilities & grounds	-
Total depreciation expense - governmental activities	<u>\$ 21,672</u>



**TOWN OF TUSAYAN, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2013**

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**Note 6. Long-Term Debt**

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The Town does not have any long-term obligations or capital leases outstanding for the year ended June 30, 2013.

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**Note 7. Retirement and Pension Plans**

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The Town had no full time employees or retirement plans for the year ended June 30, 2013.

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**Note 8. Risk Management**

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The Town is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The Town's insurance protection is provided by the Arizona Municipal Risk Retention Pool, of which the Town is a participating member. The limit for general liability, professional liability, auto liability and physical damage coverage is for \$2,000,000 per occurrence on a claims made basis.

The Arizona Municipal Risk Retention Pool is structured such that members' premiums are based on an actuarial review that will provide adequate reserves to allow the pool to meet its expected financial obligations. The pool has the authority to assess its member's additional premiums should reserves and annual premiums be insufficient to meet the pool's obligations.

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**Note 9. Contingencies**

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The Town is involved with various matters of litigation from year to year. It is the opinion of Town officials that these cases will either be handled by the Town's insurance coverage or that they will not have a material effect on the Town's financial condition.

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount if any, of the expenditures that may be disallowed by the grantor cannot be determined at this time, although the Town does not anticipate any such amounts.

**TOWN OF TUSAYAN, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2013**

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**Note 10.            Stabilization Arrangement**

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The Town has established a General Fund reserve policy to set aside funds that may be needed in the event of an emergency or other unknown event that may adversely affect the Town's financial condition. An emergency reserve of \$250,000, an operating reserve of \$750,000 and a budget stabilization reserve of \$500,000 must be maintained before any expenditure can be authorized. The trigger amount for usage of the operating reserve and the budget stabilization reserve is \$300,000. As of June 30, 2013 the total reserve is \$1,500,000 and is included in the unassigned fund balance of the General Fund.

## **TOWN OF TUSAYAN, ARIZONA**

### **REQUIRED SUPPLEMENTARY INFORMATION**

#### **BUDGETARY COMPARISON SCHEDULES**

#### **FOR THE FOLLOWING MAJOR FUNDS:**

##### **General Fund – Detail Budget-to-Actual**

The **General Fund** is used to account for resources traditionally associated with government which are not required legally or by sound financial management to be accounted for in another fund.

##### **Major Special Revenue Funds**

Special Revenue Funds are used to account for specific revenues that are legally restricted to expenditures for a particular purpose.

- **Highway User Revenue Fund (Streets)** – This fund is used to account for the Town's share of motor fuel tax revenues which are restricted for the maintaining, repairing, and upgrading of streets.

**TOWN OF TUSAYAN, ARIZONA**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance**  
**General Fund**  
**Budget & Actual**  
**For the Year Ended June 30, 2013**

REVENUES:	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Taxes:</b>				
City sales tax	\$ 2,300,000	\$ 2,300,000	\$ 2,713,993	\$ 413,993
Total Taxes	2,300,000	2,300,000	2,713,993	413,993
<b>Licenses, Permits and Fees:</b>				
Licenses and Permits	500	500	650	150
Building permits	75,000	75,000	9,485	(65,515)
Total Licenses, Fees and Permits	75,500	75,500	10,135	(65,365)
<b>Intergovernmental:</b>				
State sales tax	46,660	46,660	45,673	(987)
Urban revenue sharing	153,000	153,000	153,222	222
Total Intergovernmental	199,660	199,660	198,895	(765)
<b>Interest:</b>				
Interest Revenue	3,000	3,000	4,600	1,600
Total Interest	3,000	3,000	4,600	1,600
<b>Other Revenues:</b>				
Contributions and donations	-	-	220	220
Total Other Revenues	-	-	220	220
<b>TOTAL REVENUES</b>	<b>2,578,160</b>	<b>2,578,160</b>	<b>2,927,843</b>	<b>349,683</b>

(continued)

**TOWN OF TUSAYAN, ARIZONA**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance**  
**General Fund**  
**Budget & Actual (Continued)**  
**For the Year Ended June 30, 2013**

<b>EXPENDITURES</b>	<b>Budgeted Amounts</b>		<b>Actual Amounts</b>	<b>Variance with Final Budget</b>
	<b>Original</b>	<b>Final</b>		
<b>General Government:</b>				
Mayor & Council	117,000	117,000	27,915	89,085
City Manager	422,000	422,000	267,593	154,407
Legal	139,000	139,000	69,378	69,622
Planning & Development	595,000	595,000	163,640	431,360
Magistrate	10,000	10,000	9,634	366
Contingency	150,000	150,000	67,226	82,774
Total General Government	<u>1,433,000</u>	<u>1,433,000</u>	<u>605,386</u>	<u>827,614</u>
<b>Public Safety:</b>				
Sheriff	385,000	385,000	340,944	44,056
Total Public Safety	<u>385,000</u>	<u>385,000</u>	<u>340,944</u>	<u>44,056</u>
<b>Parks &amp; Recreation</b>				
Parks & Recreation	330,000	330,000	293,127	36,873
Total Parks & Recreation	<u>330,000</u>	<u>330,000</u>	<u>293,127</u>	<u>36,873</u>
<b>Facilities &amp; Grounds:</b>				
Facilities & Grounds	401,000	401,000	295,590	105,410
Total Facilities & Grounds	<u>401,000</u>	<u>401,000</u>	<u>295,590</u>	<u>105,410</u>
<b>TOTAL EXPENDITURES</b>	<u>2,549,000</u>	<u>2,549,000</u>	<u>1,535,047</u>	<u>1,013,953</u>
Excess of Revenues Over/(Under) Expenditures	29,160	29,160	1,392,796	1,363,636
Fund balance, beginning of year	<u>2,504,521</u>	<u>2,504,521</u>	<u>2,504,521</u>	<u>-</u>
Fund balance, end of year	<u>\$ 2,533,681</u>	<u>\$ 2,533,681</u>	<u>\$ 3,897,317</u>	<u>\$ 1,363,636</u>

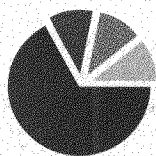
**TOWN OF TUSAYAN, ARIZONA**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance**  
**Highway User Revenue Special Revenue Fund**  
**Budget & Actual**  
**For the Year Ended June 30, 2013**

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
<b>REVENUES:</b>				
Intergovernmental revenue	\$ 76,000	\$ 76,000	\$ 71,254	\$ (4,746)
Total revenue	76,000	76,000	71,254	(4,746)
<b>EXPENDITURES:</b>				
Current:				
Services, supplies, and other	50,000	50,000	7,383	42,617
Total expenditures	50,000	50,000	7,383	42,617
Excess of Revenues Over (Under) Expenditures	26,000	26,000	63,871	37,871
Fund balance, beginning of year	39,034	39,034	39,034	-
Fund balance, end of year	\$ 65,034	\$ 65,034	\$ 102,905	\$ 37,871

**OTHER COMMUNICATIONS FROM INDEPENDENT AUDITORS**

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**MEMBERS:**

CHAD B. ATKINSON, CPA  
KRIS J. BRAUNBERGER, CPA  
DEAN R. BURDICK, CPA  
ROBERT S. COX, CPA  
TODD B. FELTNER, CPA  
K. MARK FROST, CPA

KENNETH A. HINTON, CPA  
MORRIS J. PEACOCK, CPA  
PHILLIP S. PEINE, CPA  
MICHAEL K. SPILKER, CPA  
KEVIN L. STEPHENS, CPA  
MARK E. TICHENOR, CPA

**Independent Auditors' Report on Internal Control Over  
Financial Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed  
in Accordance with *Government Auditing Standards***

The Honorable Mayor and  
Town Council  
Tusayan, Arizona

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Tusayan, Arizona as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Town of Tusayan, Arizona's basic financial statements and have issued our report thereon dated December 2, 2013.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Town of Tusayan, Arizona's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Town of Tusayan, Arizona's internal control. Accordingly, we do not express an opinion on the effectiveness of Town of Tusayan, Arizona's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiency as described in the schedule of findings and recommendations letter dated December 2, 2013 to be a material weakness.

**11-1 Year-End Accounting and Financial Statement Controls**

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies as described in the schedule of findings and recommendations letter dated December 2, 2013 to be significant deficiencies.

- 11-2 Segregation of Duties
- 11-3 Policies and Procedures

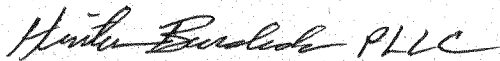
### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Town's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

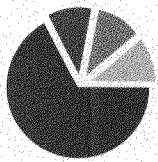
We noted certain other matters that we have reported to the management of the Town in the schedule of findings and recommendations dated December 2, 2013.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



HintonBurdick, PLLC  
Flagstaff, Arizona  
December 2, 2013



MEMBERS:

CHAD B. ATKINSON, CPA  
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**Independent Auditors' Report on  
State Legal Compliance**

The Honorable Mayor and  
Town Council  
Tusayan, Arizona

We have audited the basic financial statements of the Town of Tusayan, Arizona for the year ended June 30, 2013, and have issued our report thereon dated December 2, 2013. Our audit also included test work on the Town of Tusayan's compliance with selected requirements identified in the State of Arizona Revised Statutes and the Arizona State Constitution including, but not limited to, Title 28, Chapter 18, Article 2.

The management of the Town of Tusayan is responsible for the Town's compliance with all requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit; accordingly, we make the following statements:

The Town of Tusayan has established separate funds to account for Highway User Revenue funds. Highway user revenue fund monies received by the Town of Tusayan pursuant to Title 28, Chapter 18, Article 2 and other dedicated state transportation revenues received during the current fiscal year appear to have been used solely for authorized purposes. The funds are administered in accordance with Generally Accepted Accounting Principles. Sources of revenues available and fund balances are reflected in the individual fund financial statements.

Our opinion regarding the Town's compliance with annual expenditure limitations has been issued separately with the Town's Annual Expenditure Limitation Report.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the Town's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the Town of Tusayan complied, in all material respects, with the requirements identified above for the year ended June 30, 2013.

The purpose of this report is solely to describe the scope of our testing of the applicable compliance requirements identified in the Arizona Revised Statutes as noted above and the results of that testing based on the state requirements. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Hinton Burdick, PLLC".

HintonBurdick, PLLC  
Flagstaff, Arizona  
December 2, 2013